

MINUTES OF THE CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK

For the meeting held on
Wednesday, February 26, 2020 at 2:00 p.m.
Bergeson Peace Board Room
1325 J Street, 13th Floor
Sacramento, California 95814

Chair Lenny Mendonca, Director of the Governor's Office of Business and Economic Development, called the meeting of the California Infrastructure and Economic Development Bank (IBank) Board to order at approximately 2:00 p.m.

1. Call to Order and Roll Call

The following Board members were in attendance:

Chair, Lenny Mendonca, Director of the Governor's Office of Business and Economic Development,
Augustin Jimenez for the Secretary of the California State Transportation Agency,
Fiona Ma, the State Treasurer,
Gayle Miller for the Director of the Department of Finance, and
Marc Steinorth, Governor's Appointee

IBank staff members in attendance were:

Scott Wu, William Pahland Jr., and Stefan Spich

Information Item

2. Executive Director's Report

Mr. Scott Wu, IBank's new Executive Director, delivered the Executive Director's Report. Chair Mendonca began by welcoming Mr. Wu to IBank. Mr. Wu thanked the Board and noted he was excited to join IBank and to serve the State of California in this important position. He thanked Ms. Nancee Robles for her service as Acting Executive Director during the interim period. Mr. Wu briefly discussed his background in finance, government and private equity prior to IBank. He then welcomed IBank's two newest employees: Michelle Jones as IBank's new Fiscal Manager, and Betty Bian in the Loan Origination and Servicing units. The Board welcomed the new hires.

Mr. Wu noted IBank had just restarted its monthly newsletter with a launch the previous day. He also noted that IBank's Annual Activity Report and Small Business Finance Center Annual Report for 2018-19 had been approved and delivered to the Legislature and posted to IBank's website.

Mr. Wu briefly discussed the Climate Catalyst Revolving Loan Fund, noting the proposal had been heard in Senate Committee the prior week and was scheduled for a March 18 hearing in the Assembly.

Mr. Wu then noted two items of information for the Board. First he noted that given the current interest rate environment, IBank had been in discussions with advisors regarding a possible advanced taxable refunding of IBank's 2014, 2015 and 2016 ISRF Bonds. Mr. Wu

noted possible benefits of realizing present value savings as well as enhanced operational flexibility, and said he would keep the Board informed going forward.

Second, Mr. Wu informed the Board that IBank had transferred its \$300m volume cap allocation from the California Debt Limit Allocation Committee (CDLAC), received in 2019 for the benefit of the XpressWest high speed rail project, back to CDLAC for re-allocation to multifamily housing projects. Mr. Wu briefly described the background of the transaction and the need for the transfer. He noted that IBank intended to seek a new allocation to complete the project later in 2020. Ms. Ma noted that, as chair of CDLAC, it was important to make efficient use of these allocations, and discussed the importance of this allocation to the State's affordable housing efforts. She noted her office was seeking further Federal approvals before moving forward on this important high speed rail project. Mr. Wu thanked her for her help on the matter. Ms. Miller also thanked both the Treasurer's office and IBank for their attention and flexibility in the matter. Chair Mendonca concurred and noted this positive result was the result of good teamwork and coordination between state agencies. Mr. Wu then concluded his report.

Consent Item

3. Approve minutes from the meeting held on December 18, 2019

Chair Mendonca opened up discussion of the previous meeting's minutes. Mr. Steinorth moved to approve minutes and Mr. Jimenez seconded the motion. After asking for and receiving no public comment, the Board unanimously approved the December 18, 2019 Meeting Minutes.

Action Items

4. Resolution No. 20-01 approving issuance of revenue bonds in an amount not to exceed \$250,000,000 to refund the outstanding IBank Variable Rate Refunding Revenue Bonds, Series 2011A-2, 2011A-3, and 2011A-4, initially issued for the benefit of The J. Paul Getty Trust used to finance and refinance an eligible project located in the City of Los Angeles.

Mr. John Belmont, Public Finance Specialist, introduced Resolution 20-01. Mr. Belmont described the project and the public benefits of the financing. He then introduced the J. Paul Getty Trust's representatives: Rudy Salo, Borrower's Counsel (Nixon), John Gust, Underwriter (Jeffries), and Lina Thoreson, Bond Counsel (Orrick). Chair Mendonca welcomed the representatives and invited comment on the project.

Mr. Jimenez began by praising the quality of the Staff Report and asked the representatives to elaborate on the public benefits of financing. Mr. Salo responded that he has worked with the Getty for 15 years and that administering the swaps (which are being eliminated in the new financing) required substantial time to monitor and required certain levels of liquidity for collateral purposes. These resources can be redirected to the Trust's primary philanthropic purposes once this transaction closes. Mr. Jimenez asked whether the swaps would be fully eliminated and Mr. Salo clarified that one additional swap was planned for termination upon its maturity in 2021. Mr. Jimenez thanked Mr. Salo.

Chair Mendonca then asked for public comment. Hearing none, Mr. Steinorth moved for approval of the resolution and Ms. Miller seconded. The Board voted unanimously to pass Resolution 20-01.

5. Resolution No. 20-02 approving lending Infrastructure State Revolving Fund Program funds to the City of San Luis Obispo in an amount not to exceed

\$14,300,000 to finance an eligible project known as the Water Energy Efficiency Project located in the City of San Luis Obispo.

Mr. John Weir, Municipal Finance Specialist, introduced Resolution 20-02. Mr. Weir described the project and the project's expected savings and benefits. He then introduced the City of San Luis Obispo's representatives: Mychal Boerman, Deputy Director of Water, and Jennifer Thompson, Utilities Business Manager. Chair Mendonca welcomed the representatives and invited comment on the project.

Mr. Boerman responded by thanking the Board for its time and consideration. He noted this was a complex project for the City with two major benefits; upgrades to the City's ozone treatment system combined with energy efficiency improvements that are expected to result in up to 30% less energy use.

Mr. Jimenez then noted that the Board had recently been informed that the City was named in a recently filed lawsuit that challenged the City's rate setting process under the requirements of Proposition 218. Mr. Jimenez noted that because the complaint was vague and did not make any specific allegations against the City it was difficult to evaluate the possible impact of the lawsuit. Mr. Wu agreed and noted that this complaint had only arrived the day before and had been immediately shared with the Board. He also noted that 2 other ISRF loans may be implicated in the lawsuit, representing a combined 12% of ISRF's pledged loan pool. Mr. Jimenez requested, and Mr. Wu agreed, to include the City's notification to IBank of this lawsuit, and IBank's notification to the Board, as part of the public record by including them in these Minutes. Those communications are attached hereto as Exhibit 1.

Chair Mendonca then asked for public comment. Hearing none, Ms. Miller moved for approval of the resolution and Mr. Steinorth seconded. The Board voted unanimously to pass Resolution 20-02.

6. Resolution No. 20-03 approving lending Infrastructure State Revolving Fund Program funds to the City of Goleta in an amount not to exceed \$10,000,000 to finance an eligible project known as the City Hall Purchase Project located in the City of Goleta.

Ms. Lina Benedict, Loan Origination Manager, introduced Resolution 20-03. Ms. Benedict described the project and its public benefits, including annual rent savings. She then introduced the City of Goleta's representatives: Luke Rioux, Finance Manager, and Jaime Valdez, Project Manager. Chair Mendonca welcomed the representatives and invited comment on the project.

Mr. Rioux thanked the Board. He noted that the City had been incorporated in 2002, and had started leasing its City Hall in 2006. By now acquiring the building directly the City could save on lease payments as well as expand in formerly occupied space, benefiting future City operations. Mr. Rioux thanked IBank and Lina's team for being helpful and responsive.

Ms. Ma asked about the seller of the building. Mr. Rioux responded that it was purchased from a private sector real estate investment trust. Mr. Jimenez asked how this transaction would be structured, noting that the building's acquisition had already closed in 2019. Ms. Benedict responded that the City had passed a reimbursement resolution at the time of the acquisition and it was otherwise an eligible project.

Chair Mendonca then asked for public comment. Hearing none, Ms. Miller moved for approval of the resolution and Mr. Jimenez seconded. The Board voted unanimously to pass Resolution 20-03.

Reporting/Non-Action Business

Public Comment

Adjournment

Chair Mendonca declared the meeting adjourned at approximately 2:25 p.m.



Memorandum

TO: California Infrastructure and Economic Development Bank Board of Directors

FROM: City of San Luis Obispo

SUBJECT: Legal Complaint

DATE: February 25, 2020

On February 17, 2020, the City of San Luis Obispo (City) and a long list of other California cities were named in the attached complaint alleging violations of Proposition 218 (Prop 218). Prop 218 prohibits government from imposing property related fees, including those for water service, that exceed the cost of service.

The City has not been served and the allegations in the complaint are ambiguous to the extent that a full evaluation of the allegations is difficult. The City knows that Prop 218 is a law that must be abided by, but it is also a protection for water rate payers and the health of the water fund. As such, the City takes precautions every year to ensure that rates only include those costs necessary to provide water service.

In general, the complaint alleges that the named cities unlawfully set water rates that exceed the cost of service. The City is fully versed in the requirements of Prop 218 and sets all water rates to pay only the cost to provide water service. To ensure that water rates comply with Prop 218, the City uses an outside consultant, HDR Engineering, Inc. (HDR) to study and set rates. The most recent rate study is attached.

The complaint also generally alleges that the named cities rates subsidize general governmental services. The City also uses an outside consultant, Mahoney and Associates, to set the water rate contribution to general government services (cost allocation). This ensures that water rates pay only for those reasonable general government services that benefit water rate payers. The most recent cost allocation plan is attached.

The complaint also generally alleges that the named cities subsidize government water service. The City charges government facilities, including City facilities, the same rates as all other commercial customers. The City does not have a separate government water service rate, so it does not subsidize government water service.

The City strictly complies with Prop 218 to protect rate payers and the fiscal health of the water fund. The City is confident that its rates, transfers to the general fund, and government water service rates are legally defensible, and that this

complaint presents very little risk to the City. This being said, the City will defend vigorously in any resulting litigation.

Attachment A: Complaint
Attachment B: HdR Rate Study
Attachment C: Cost Allocation Plan

From: Wu, Scott@IBank **Sent:** Wednesday, February 26, 2020 9:32 AM
To: Lenny Mendonca; Jimenez, Augustin@CalSTA; Miller, Gayle; Ma, Fiona; Marc Steinorth; Jovan, Agee
Cc: Pahland, Fritz@IBank Robles, Nancee@IBank; Benedict, Lina@IBank
Subject: Board meeting agenda item 5

Dear Board Members:

I look forward to seeing you this afternoon at my inaugural IBank board meeting. In advance, I wanted to alert you to an update on a transaction that came to our attention late yesterday. This regards item 5 on the February Agenda, a \$14.3 Million ISRF Financing to the City of San Luis Obispo. The City informed us that it had very recently been named as a defendant in what appears to be a class action lawsuit alleging the City's water rates exceed the cost of providing water service and so violate Proposition 218. The remedies sought include monetary damages and a court order directing the City to revise its water rates.

A copy of the complaint is attached along with a memo discussing the litigation from the City of San Luis Obispo. As you can see, the complaint was filed by a number of plaintiffs against a number of municipal water agencies. The City is not the sole targeted defendant in this matter.

At this time it is impossible to tell whether the complaint has any merit with respect to the City, and if it does have merit, what the potential range of damages may be. The complaint's allegations are vague and do not provide enough detail to even begin to assess the claims and potential City liability. It is possible the City could quickly exit the litigation and it is possible the City could remain in litigation for years and ultimately be ordered to pay a multi-million dollar judgement and to revise its rate structure.

The City relates that it is confident the complaint is meritless and that it intends to vigorously defend against the complaint. We have asked the City to be ready to discuss this matter in more detail at today's Board meeting. The City will be ready to answer any of your questions at the meeting.

Please do not hesitate to contact me if you would like to discuss the matter further.